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1983 ANNUAL REPORT OF THE

CHAIN DRUG INDUSTRY

See inside

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DRUG STORE NEWS®

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Chain's market share grows as volume rises nearly 10%

NEW YORK—As inflation slowed to a slow walk in 1982, the increase in chain drug sales dropped below the double-digit rate for the first time in more than a decade.

According to *Drug Store News'* Annual Report of the Chain Drug Industry, chain drug sales reached $28.66 billion last year, 9.9% higher than in 1981.

Chains again outpaced the drug store industry as a whole by a substantial margin. Total drug store sales as measured by the Commerce Department increased 6.7% to $35.85 billion, and chain drug companies of two or more stores managed to capture 79.9% of the total market, up from 77.6% in 1981. A decade ago, chains held a 57% share of market with sales of $9.62 billion.

According to *DrSN*'s annual chain survey, average sales per chain unit advanced by 8.6% to $1.42 million, a shade above the 1982 chain drug industry same store sales increase of 8.2%.

While total chain drug sales increased by 9.9%, the 50 largest chains racked up sales increases averaging almost two percentage points higher.

In 1982, the number of chain drug stores increased by 244 to 20,225, giving two-or-more-store chains a 45.5% share of total stores, compared to 42% last year.

Chains generally scaled down their expansion and acquisition plans last year in an effort to reduce costs. For the most part, they pursued a "backfilling" strategy of strengthening existing markets with small acquisitions, in contrast to the "acquisition fever" in 1981.

The most active chain in the acquisition market was Rite Aid, which picked up the five-store Cochran chain in Columbus, Ohio; the 27-store Mann Drug chain in North Carolina, and the 19-store Lomark Discount Drugs in Ohio.

Revenues up 10% plus

Top 4: Rx, OTC, photo, DIY

The categories showing the heftiest sales gains during 1982 were prescriptions, drugs/proprietaries, photo and photo processing and do-it-yourself. All four of those categories showed a better than 10% sales increase and combined to produce sales of almost $12 billion.

The success of these categories supports the fact that drug stores are still favored for traditional items, including Rx, yet viewed as a convenient location to purchase items such as DIY or for film processing. More and more chains are adding one-day film developing service because of its great success.

Following is a brief synopsis of the trends in the top performing drug store categories:

Prescriptions—Rx accounted for 18.3% of the $28.66 billion chain drug store sales posted in 1982. Prescription sales—thanks to price increases and new drugs— jumped 16.1% last year for an all-time high of $5.3 billion. Indeed, the pharmacy counter strengthened its position in the store; last year Rx accounted for only 17.5% of volume.

Drugs/proprietaries—This category continued to produce 15.3% of total drug sales, the same figure as last year. Sales rose 11.2% over 1981 to $4.4 billion.

Photo and photo processing—Shoppers like the convenience of drug chains for processing, and drug chains like the sales and profits clicking in this category. Sales reached $1.3 billion, up 12.3% over 1981.

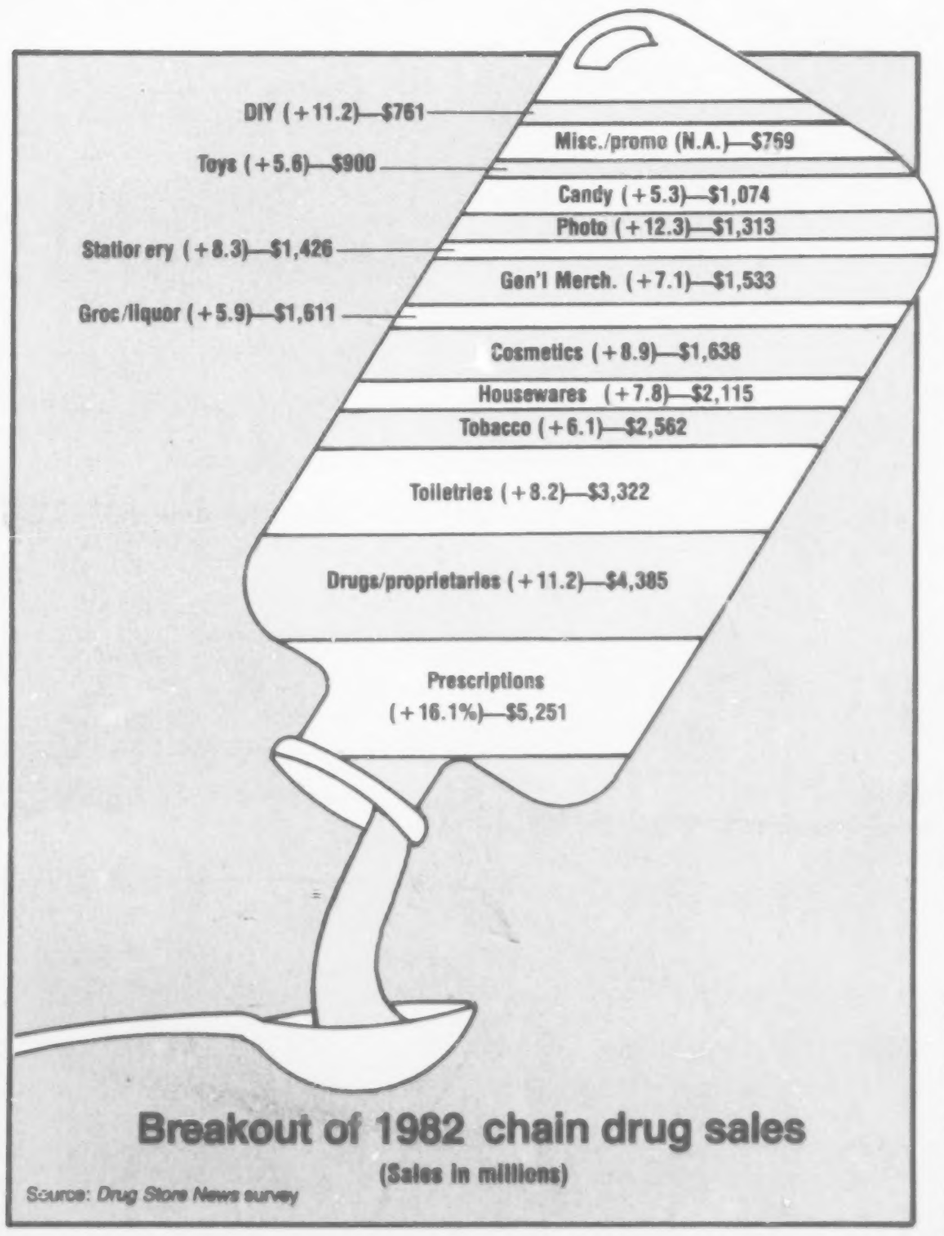
DIY—There is no end in sight for the do-it-yourselfers. Sales of this category jumped 11.2% to $761.1 million and now account for 2.7% of chain sales.

Toiletries and cosmetics showed an 8.2% and 8.9% increase, respectively. Toiletries now account for 11.6% of total chain sales, cosmetics garner about 6%.

Housewares and general merchandise showed modest gains, but did suffer somewhat from the economy. In 1982, housewares registered a 7.8% increase, while general merchandise rose 7.1%.

Tobacco, candy, toys and food showed only modest sales gains.

On the whole, retailers were pleased with the performance of the standard drug store mix.



Breakout of 1982 chain drug sales
(Sales in millions)
Source: *Drug Store News* survey

Chains defy economy; earnings outstrip sales

NEW YORK—By all rights, 1982 should have been a mediocre year for the chain drug industry. Rising unemployment and drooping consumer confidence took a toll on sales and profits of other retail segments.

But for the chain drug companies, the crucible of hard times forged a steely will not only to survive but to excel.

In most instances, that is just what happened. Chains tightened their belts, trimmed payrolls and other expenses, kept inventories lean, postponed expansion plans and borrowing, concentrated on existing stores.

The result: Net profits for the year generally outran sales on a percentage basis.

Fay's Drug, for example, reported a sales increase of 17% for the year, but a profit leap of 78%. Walgreens' sales rose 17% and profits 33%. Pay Less chalked up an earnings gain of 16% on a sales increase of 3.5%. Pay 'n Save sales were up almost 10% compared to a profit gain of 30%.

Revco was a good example of how chains reacted to the threat of recession. Early in the year, the chain introduced a cost-cutting program called IMPACT (Ideas to Maximize Profit and Cultivate Thrift). The program included a personal letter from president Sidney Dworkin to each of the chain's more than 1,600 store managers asking them to come up with ideas designed to save $10 a day per store. The result was that in each of the last four quarters through Feb. 5, 1983, Revco's profits increased at a faster rate than sales. In the most recent quarter, for example, earnings increased almost twice as fast as sales (29% vs. 15%).

Rx volume, price gains boost sales 16%

NEW YORK—Growth in prescription volume in the nation's chain drug stores was just short of phenomenal last year, according to *Drug Store News'* Annual Report of the Chain Drug Industry.

A 3% gain in the number of scripts coupled with retail price increases of 13%—to $10.17 per average script—produced a 16% sales advance for chain drug pharmacy departments.

The gains trace to the introduction of more expensive new prescription drugs as well as manufacturer price increases that averaged 11.7% for the year.

In fact, for the first time in recent memory, prescription prices climbed much faster than the consumer price index.

Despite some well-known Rx drugs being converted to OTC status, script counts posted a gain.

Speculation by some analysts is that script counts will continue to rise, given the continued expansion in the number of senior citizens. Demographers say those over 65 are part of the fastest-growing segment of the United States population.

In spite of forecasted growth, there is a growing problem on the horizon. Increasing costs of newly developed drugs and continued price increases are spurring third-party administrators to become more cost-conscious.

This problem takes on added dimensions because the number of third-party scripts continued to grow, although not at the rapid pace seen in years past.

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Towle optimistic after building new exec team

By Allen Mundth

NEW YORK—Eighteen months after he took over as Gray Drug Fair's new president and general manager, Alvin Towle has completed what he cited then as his foremost task: assembling a blue ribbon management team to restore the two underperforming chains into a viable retail operation.

In fact, since his arrival at Gray Drug Fair's Cleveland headquarters, appointments to 31 of the company's top 33 management positions have changed. Fifteen of the new appointees were internal promotions; 16 represented transfers from other retail chains, including GDF's parent company Sherwin Williams and a host of major drug chains (Peoples, Eckerd, Thrift, Fay's, SupeRx, Shoppers Drug Mart and Medi Mart).

The 31 appointments, including new vice presidents in charge of GDF's Northern, Atlantic and Southern regions, will be the catalyst for numerous operational changes still to be made at the 380-store chain, said Towle.

"It's taken us this long just to get off the roller coaster Gray Drug Fair was riding for so long," Towle told *Drug Store News* in an interview here last month. "And we've still got a long way to go. On a scale of one to 10, I think we've reached a four or five. I'll be happy when we get to an eight or a nine."

Although chainwide in scope, Towle's rebuilding plan during the past year was focused primarily on the Atlantic region, where a management shake-up prior to his arrival, as well as distribution problems stemming from Gray's earlier takeover of the Drug Fair chain, seriously threatened its market share.

Drug Fair's decline—from earnings of $4.1 million in 1976 to $1.4 million in 1981—was well under way when Gray sold its troubled Rinks department store chain in early 1981 for the $34 million needed to buy Drug Fair. The subsequent dismissal of numerous top Drug Fair managers left the division in the hands of out-of-town managers, most of them unfamiliar with the Washington, D.C., marketplace.

Local control

Recognizing the need for local management control, Towle has changed all that, not only by appointing the new regional vps, but also by naming new regional merchandise/marketing managers.

"As diverse as we are—with multicities, multicultures and multiclimates—we couldn't expect to control it from Cleveland," he said.

As a result, both buying and pricing—though done centrally at GDF headquarters—now involve considerably more regional input than they did in the past. Already, the changes are bringing results:

During the first three months of the current fiscal year (January, February and March), Gray Drug Fair's sales rose 15% over sales in the comparable year-earlier period. Prescription sales were well ahead of last year's pace during the period. For the fiscal year ended Dec. 31, Gray Drug Fair reported operating income of $13.9 million on sales of $540.6 million, compared to a pro forma loss on sales of $508 million in the prior year.

Drug Fair's share of the mid-Atlantic market, Towle said, also inched upward one point to 24% last year, vs. 26% for Peoples and 22% for Dart.

Fashion departments close

Under the direction of GDF merchandising vp Harry Steck, Fashion Fair departments in more than 100 Drug Fair stores were closed last year, primarily because their soft lines mix failed to reflect GDF's new emphasis on core drug store merchandise.

Though at one time successful, profits from the Fashion Fair departments had declined considerably in recent years.

Al Towle
Gray Drug Fair

All but a handful of the 30-odd soda fountains and/or cafeterias in Drug Fair stores have also been closed (see related story).

Up to 60 Drug Fair stores, many of them up to 25,000 sq. ft. in size, will be "walled off" and remodeled during the coming year to conform with GDF's new Atlantic region prototype. That prototype, an 8,000- to 14,000-sq.-ft. model featuring a strong "departmental" presentation in cosmetics, health and beauty aids, greeting cards and seasonal merchandise, is already in place in seven Richmond, Va.-area Drug Way stores, acquired by GDF last year.

"Easier to shop"

"We want to make all of our stores easier to shop," Towle said, "so we're bringing everything together into key departments. Drug Fair, it seems, had the right merchandise mix. But their four-corner presentation made the stores difficult to shop." (Remodeled Gray stores in the Northern region will also receive greater emphasis on departmentalization to make the shopping experience easier.)

When completed, this year's remodeling program will reduce most Drug Fair stores 14,000 sq. ft. to 16,000 sq. ft. Sherwin Williams is expected to open up to 15 retail paint outlets in space formerly occupied by the larger Drug Fair stores.

Stability has also been restored to Drug Fair's 30 Baltimore-area Drug Fair stores, where a major price-slashing campaign announced by former Gray management resulted in a sizable "false inventory buildup," Towle said. "We have restructed the markup process in those stores so that we are once again operating on a competitive basis—rather than trying to be the lowest guy in town."

In addition, the out-of-stock problems that have plagued

Continued on page 145

News in brief

Thrifty splits stock 2-for-1

LOS ANGELES—Thrifty Corp. directors voted a 2-for-1 split of the company's 9,956,217 outstanding common shares. The distribution of the stock will be made June 10 to shareholders of record at the close of business May 10. Thrifty believes the action will result in broader distribution and greater marketability of its common stock among investors. When the split takes place, each share that was outstanding in 1947 will be equal to 48 shares.

Boyle joins Eckerd as finance chief

CLEARWATER, Fla.—The Jack Eckerd Corp. has named John W. Boyle as senior vp of finance and administration.

Boyle had been chairman and chief administrative officer of The May Department Store Co. and had been responsible for finance and audit, operations and data processing, research and planning and legal affairs.

Boyle joined May in 1972 as an executive vp and controller and as a member of the board of directors. He was previously a partner with Arthur Anderson & Co., where he developed programs for the retail industry.

Stewart Turley, chairman and president of Jack Eckerd Corp., said, "Boyle brings a solid and broad experience in retailing which will be valuable to our company's continued growth."

Family Centers HQ moves to Fla.

MONTVALE, N.J.—A&P's Family Centers subsidiary will move its headquarters from Atlanta to Clearwater, Fla., to be closer to the concentration of Family Mart food/drug combination stores operated by the subsidiary on Florida's west coast.

"The majority of our Family Mart stores are in the Tampa, St. Pete area," said Michael Rourke, A&P's vp of communications and corporate affairs. The shift from Atlanta to the new site, which is tentatively set for June, will involve 25 to 30 headquarters personnel, according to Rourke.

The Family Centers subsidiary operates 22 Family Mart combos in Florida, South Carolina, North Carolina, Georgia and Alabama.

Garrett Chock Full o'Nuts president

NEW YORK—Gordon M. Garrett, formerly vp marketing for the Eckerd Drug Company, has been named president of The Chock Full o'Nuts Corporation.

Garrett, 46, was a member of Eckerd's management board for one and one-half years. Prior to that, he was president of the household division of the American Cyanamid Company .

Nostalgia Quiz #24 winner chosen

John Leiter of Hook Drugs in Columbia City, Ind., is the winner of $100 in *Drug Store News'* Nostalgia Quiz #24. The correct answer was Pay Less Drug, Oakland, Calif.

In this issue

Classified	143	Pharmacy	35
Financial	12	Annual Report	55
Merchandise News	139	Special Canadian Section	26

SPECIAL FEATURES

Heaven: a happy hunting ground for shoppers 18
Execs share success tips at spring buying show 20
New Texas Drug Emporium opens 138

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Gray Drug Fair ends era as fountains close

ALEXANDRIA, Va.—Reinforcing its new emphasis on core drug store merchandise, Gray Drug Fair has closed all but five of the soda fountains formerly operated in D.C.-area Drug Fair stores.

"These operations are a distraction from the mainstream of our business, and they do not fit into our strategy for reinforcing core drug store merchandise," Atlantic region vp Gary Hansen said.

At the close of fiscal 1982, all but eight of the 30-odd fountains operated by Drug Fair when it was acquired by Gray in May1981 had been closed. Since the first of the year, three additional fountains have closed.

Late last year, Gray Drug Fair closed the Fashion Fair apparel departments in more than 100 Drug Fair stores, freeing up additional space for basic drug store merchandise items. In certain stores, the former Fashion Fair departments are being remodeled and sublet as freestanding retail shops. A yarn shop recently opened in space formerly occupied by one Fashion Fair department.

Most of the space formerly used for soda fountains will be remerchandised with expanded health and beauty aids sections. Remaining fountain units will be reviewed by Gray Drug Fair management on a unit-buy-unit basis to determine whether they should be continued.

In contrast with Gray Drug Fair, Peoples Drug still sees soda fountains as a viable part of many of its Washington, D.C. area stores. The Alexandria, Va.-based chain operates fountains in 66 D.C. area stores and in two Atlanta-area Lane drug stores.

"We are really quite pleased with the sales and profitability of our soda fountains," sr. vp for operations Nicholas Simon told *Drug Store News*. "We are not planning to make any wholesale cutbacks with our fountain operations whatsoever."

Although Peoples has no plans to open additional fountains, the significant store traffic that existing units create more than justify their existence, he said.

Walgreens begins shipping from new Flagstaff warehouse

FLAGSTAFF, Ariz.—Walgreens has begun shipping merchandise to 135 stores out of its newest warehouse, a 200,000-sq.-ft. facility here.

The state-of-the-art center, the chain's seventh, serves five rapidly growing Southwest states. The warehouse makes its debut a year after the opening of a 350,000-sq-ft. facility in Windsor, Wis. Walgreens also has centers in Memphis, Denver, Houston, Orlando, Fla., and Berkeley, Ill.

"Our highly automated and computerized distribution centers," President Fred F. Canning, said, "are enabling broader warehouse stocking to provide better store service at lower costs."

Currently, about 72% of all mechandise is shipped from the chain's warehouses, and the goal is to hit 80%.

Walgreen's network of distribution systems is considered one of the most efficient in the industry. At the Memphis, Orlando, Windsor and Flagstaff sites there are computerized pickers, laser beam scanners that read, sort and divert up to 70 cases per minute, a post billing system and a sortation operation that handles several orders simultaneously.

One example of the efficiency of a Walgreens warehouse is that less-than-case-load shipments can be handled at a rate of 900 items per hour vs. the 110 per hour limit of humans.

Walgreens, to date, has sunk about $43 million into its distribution systems and, in 1984, the chain will begin upgrading its older facilities. The concentration of the distribution network has paid off; distribution costs are down 25% in the past few years, according to Canning.

Plus, an entire day has been sliced out of the store order time and store order turnaround has been reduced to three days for over half of the chain's 800¢ units. What this means, Canning explained, is faster turnover of merchandise and better profitability.

Show buyers try to keep up with phone trend

Morton and Carol Rosenberg conversed with Cunningham's Ray Shapero during the reception held in the ballroom of the hotel.

Also attending the combined buying show were Ralph Leonard of Tasco and Bud Perfit, president of Eckerd Drug.

Bob Begley of Begley Drug was one of the many drug store retailers attending the show. Begley is shown with Patti Latter of Scentex Inc.

NEW YORK—Telephones were the hot topic of conversation at the recent Associated and Affiliated spring buying show as drug retailers sought to stock up on supplies in answer to the rapidly growing consumer demand.

In the headquarters room of the Associated Chain Drug Stores, a display of some of the fastest moving advertised items from the first three months of the year submitted by member chains included a one-piece telephone. The chain which submitted it, L. F. Widmann, said it sold 1,100 pieces at $14.88 each.

Clarence Fain, vp of merchandising and fixturing at Begley Drugs, said a recent ad promoting a cordless telephone clock-radio was so successful the chain had to issue rainchecks.

In the hallways and in the exhibitors' rooms, the talk centered around telephones. At the rate telephones have sold, retailers question whether or not they will be able to keep enough in stock.

"One of the biggest problems has been that manufacturers are not shipping phones to meet demand," said Sally Hayes, a buyer for Sentry Drugs.

One-piece phones and the more expensive cordless telephone clock-radios were moving very well, according to many retailers. Most retailers expect the cordless telephone category to explode over the next few years. However, there was concern expressed at the show by retailers and suppliers that shortages of raw materials used in the manufacturing of telephones will be a major problem throughout the remainder of the year.

Generally, the mood at the show was positive. Several retailers said they were impressed with some of the merchandise brought by new vendors, particularly import products. The combined shows featured a total of 110 exhibitors and 83 drug chains.

"It was a successful show," said Phil Weinstein, president and general manager of Affiliated Drug Stores. "The optimism shown there was a complete change from a year ago."

"There was definitely an upbeat mood from the suppliers' and from the buyers' points of view," said Ira Shain, president of Associated Chain Drug Stores. "There were orders

Continued on page 142

Joe Pedott poses with Ron Erickson of Pay 'n Save and Al Towle of Gray Drug Fair.

Associated's president Ira Shain and his wife Sylvia discussed the show with Jim Muir, of Muir Drug.

TV ads used to counter bad economy

NEW YORK—Drug chains in 1982 seemed to adhere to the age-old advertising adage stating that companies should increase advertising budgets in poor economic times to retain market shares.

Last year, drug stores spent $45 million for local TV advertising, a 34% increase from 1981, according to figures from the Television Bureau of Advertising.

Among the retail drug industry's largest chains, Eckerd continues to be the biggest electronic advertiser. In 1982, the chain spent $11 million in TV time, up 40% from the $8 million it spent the year before.

However, the biggest percentage gain in TV advertising dollars in this category was made by the Dallas-based Page Drugs, which increased its budget by a whopping 436% to almost $1 million. In 1981, Page spent $180,200 in TV time.

Walgreens, reflecting a broader advertising strategy, increased its TV ad budget 380% in 1982. The chain spent $2.2 million last year, compared to $456,900 in 1981.

According to Vern Brunner, senior vp, marketing, Walgreens is "expanding the focus" of its advertising.

"Although our major advertising commitment remains with newspapers, electronic media advertising will grow in importance in 1983-84," Brunner said.

Another major drug chain which placed a greater emphasis on television last year was Thrift Drugs, spending 130% more than it did in 1981. Thrift's total TV advertising expenditures were $1.6 million in 1982.

Other significant increases in TV advertising budgets last year were made by Skagg's, which boosted its TV buys 96% from $654,700 to $1.3 million; Peoples, up 67% to $1.7 million; Sav-On, a 54% increase to 1.1 million, and Osco, which upped its local TV budget 43% to $1.1 million.

Two chains which rank among the top 15 in size of their TV advertising budgets but which cut back on TV ads last year were Revco and Hook Drugs. Revco, which trimmed its TV ad budget in 1981 by 16%, last year reduced it by an

Continued on page 146

Top 15 Drug Chain Local Television Advertisers 1982

Chain	1982	% Change
1. Eckerd	$11,092,900	+ 40
2. Thrifty	3,518,200	+ 18
3. Revco	3,271,900	− 20
4. Walgreen	2,195,400	+380
5. CVS	1,914,300	+ 20
6. Peoples	1,714,400	+ 67
7. Long's	1,689,500	+ 8
8. Pay 'n Save	1,683,200	+ 24
9. Thrift	1,566,700	+130
10. Skagg's	1,285,100	+ 96
11. Hook	1,140,900	− 6
12. Genovese	1,114,300	+ 8
13. Osco	1,093,800	+ 43
14. Sav-On	1,079,500	+ 54
15. Page	965,000	+436

Source: Television Bureau of Advertising

Perry enters deep-discount competition with A. L. Price

DEARBORN, Mich.—Perry Drug Store's newest venture, a deep-discount unit called A. L. Price (Always Low Price), will be pitted against a new F&M low-margin outlet scheduled to open just two doors away.

Following plans by the 10-store F&M chain to open a new unit here, Perry quickly converted an existing 17,700-sq.-ft. store. Although the store was never closed, it took on a new decor with the austere, off-price retailing look. Prices at A. L. Price (Always Low Price) were slashed as much as 50% to be competitive.

Rather than operate from Perry's headquarters in Pontiac, Mich., the chain plans to station a buyer in the store. This departure from the chain style of operating will allow Price to strike good deals as

Continued on page 142

Fantle outlines settlement in Schering-Plough lawsuit

ALEXANDRIA, Va.—Peoples Drug has agreed to destroy remaining stocks of its private label chlorpheniramine maleate allergy tablets and reintroduce the product with new package colors in response to Schering-Plough's lawsuit charging trademark infringement of the firm's Chlor-Trimeton tablets. Peoples markets the product under the name Pharma-Clor.

A similar suit filed against Rite Aid of Pennsylvania is still pending, and the chain refused to comment on the suit's status.

In a letter to Schering-Plough's pharamaceutical division president, People's president Sheldon Fantle set down terms of a settlement, explaining that "as of this date (March 24), we have approximately 200 dozen finished goods in the warehouse and stores of the current package. This should take approximately 120 days to sell through. Whatever goods are remaining after that time will be destroyed."

Fantle also proposed the new packages of the chain's private label product would use a green and blue color design to distinguish it from Schering's. The original Peoples Pharma-Chlor package used the same green and white package colors as the brand name product.

Schering agreed to settle.